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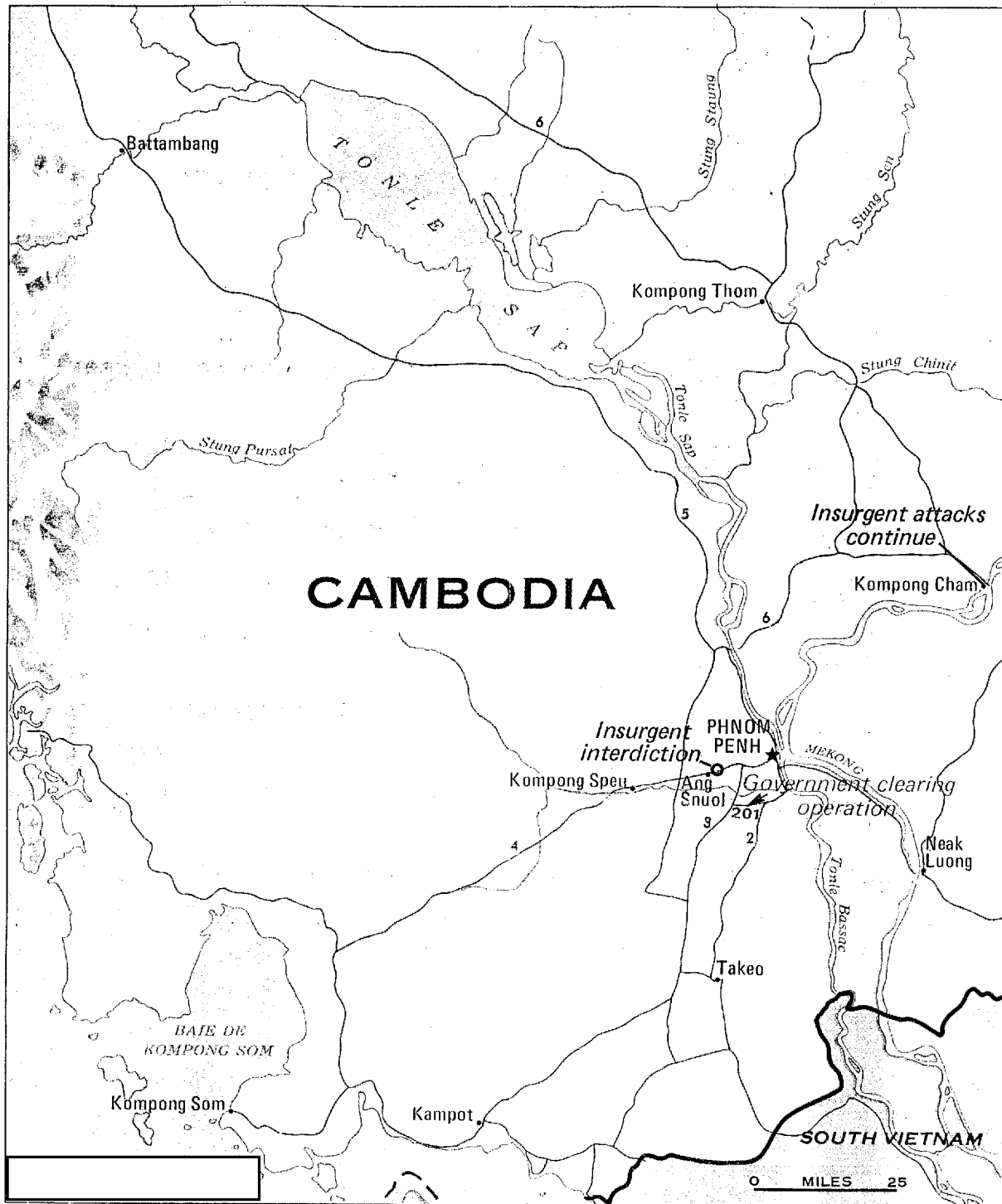
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CAMBODIA: Khmer insurgent pressure against the isolated northern provincial capital of Kompong Cham is increasing.

Insurgent forces continued to shell government positions in and around the besieged city and to make ground probes against its defensive perimeter over the weekend and yesterday, but government troops managed to contain the attacks. The US defense attaché in Phnom Penh reports, nonetheless, that the situation at Kompong Cham is precarious.

The government continues to build up the city's defenses. Over 300 fresh troops have been shuttled by helicopter from Phnom Penh to Kompong Cham in the past few days, and more reinforcements are to follow. In addition, a Cambodian Navy riverine force of 16 vessels has moved up the Mekong to provide fire and logistical support to government ground units at Kompong Cham.

West of Phnom Penh, the insurgents are still blocking a short section of Route 4 in the face of government efforts to clear it. Elements of the Cambodian Army's 1st Division, which were halted by an insurgent ambush on 2 September, have been reinforced but are making slow progress trying to reach the town of Ang Snuol--15 miles from Phnom Penh.

Elsewhere in the Phnom Penh region, units of the Cambodian Army's 3rd Division are still meeting some resistance to their clearing operations south of the capital near Route 201. Twelve miles north-east of the capital, the government has launched several small sweep operations along the Mekong's east bank to counter insurgent harassing attacks in that sector.

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CHINA: The new constitution adopted by the Chinese Communist Party at its recent congress largely reflects the political situation in China today, rather than providing a precise guideline for the future. The drafters did make an effort to prepare the party for a China without Mao by omitting previous adulation of the Chairman's thought, but apparently could not reach agreement on a scheme for succession. The charter notes only that "millions of successors" must be trained.

No provision was made for re-establishing the position of secretary general, the potentially powerful chief administrator of the party. The omission suggests that the post is still too controversial to discuss openly; its last occupant, Teng Hsiao-ping, was purged during the Cultural Revolution for obstructing Mao's policies. It is likely that Shanghai party boss Chang Chun-chiao is now the secretary general, and it is possible that he may prefer to remain without title in the interest of avoiding controversy.

The constitution is a mixture of moderation and revolutionary rhetoric concerning domestic politics, but it is susceptible to differing interpretations. It calls for many more political upheavals like the Cultural Revolution in the future and urges cadre to "go against the tide." The constitution does not define the ground rules for such actions, however, leaving open the possibility that a number of current policies--rightly or wrongly--could come under fire.

So far, no major disagreement has surfaced on the treatment of foreign policy in the constitution.

[REDACTED]

ICELAND: The government's demand that British anti-submarine patrol flights near Iceland, operating under NATO aegis, be conducted by US-manned aircraft from Keflavik comes very close to merging formally the base issue and the Cod War.

Iceland contends that the British flights, which originate in the UK and patrol inside the 12-mile limit, are used to "spy" on its coast guard operations against the British trawlers. Prime Minister Johannesson told a press conference on 31 August that "our protectors"--the US forces at Keflavik--could conduct such flights in place of the British. Johannesson's argument will be supported by the populace, aroused over the recent death of an Icelandic seaman in the Cod War. Reykjavik is studying several moves to retaliate for the incident, including severance of diplomatic relations with London, extension of its territorial and air space jurisdiction to 12 miles, and a protest in the UN.

If NATO responds positively to Iceland's demand that the US take over the British patrols, and Keflavik-based aircraft subsequently assume that responsibility, London may protest. On the other hand, if NATO rejects the demand, or if the US fails to respond, chances for successful base negotiations later this month would be lessened.

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EUROPE-US: Preparations for a European Community statement on Atlantic relations are inching along. EC representatives meeting in Copenhagen on 30 August thoroughly discussed papers on the subject submitted by several EC states, but the US Embassy in Bonn reports that West German officials described the meeting as "not especially good." The West Germans remain hopeful, however, and Italian and Belgian officials are faintly optimistic, that the EC eventually will agree on a statement that would express a unified view of US-European relations and establish the basis for a US presidential visit. The statement will be discussed further at a political directors' meeting on 4-5 September and then again at the foreign ministers' meeting on 10-11 September.

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CZECHOSLOVAKIA - WEST GERMANY: Both countries appear willing to resume negotiations on the establishment of diplomatic relations, but neither has indicated a willingness to compromise on the issue that has blocked progress, representation of West Berlin.

Czechoslovak party leader Husak has expressed regret that West German Chancellor Brandt postponed his symbolic visit to Prague and the signing of a draft agreement to normalize relations. Both left the door open to a final settlement "sooner or later." Brandt has taken a philosophical approach, stating that temporary delays have to be accepted. West German Foreign Minister Scheel has also expressed the hope that relations will be established "very soon."

Neither Prague nor Bonn is demonstrating flexibility on the issue of West Germany representing West Berlin. Brandt stated on 31 August that "we are not going to be made fools of," while Husak in turn has denied any responsibility for the delay and has left future initiatives to Bonn. [REDACTED]

CHILE: Political tensions continue to lessen as supporters of President Allende celebrate the third anniversary of his election.

Over the weekend, Navy commander in chief Montero again offered his resignation to Allende, who again rejected it. The President is reluctant to see Montero depart because he has served to moderate the distaste many naval officers have toward the government. Another approach toward a "dialogue" between the Christian Democrats and the government hit a snag when the leader of the main opposition party announced that renewed talks were impossible, "so long as the government does not restore the constitutional and legal norms that it has broken."

Solution to the transport strike seems no nearer, in view of the government's denial that any agreements have been reached or that government negotiators have even met with strike leaders in the past several days.

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BOLIVIA: Political infighting in anticipation of elections next year could break up the coalition supporting President Banzer and might even lead eventually to his ouster.

The dispute stirring old hatreds among the disparate members of the current coalition concerns the rules that will govern the elections. Banzer is sure to be returned to the presidency no matter what system is adopted, but the electoral rules will determine which of the political parties, or the military, will dominate Congress.

The right-wing Bolivian Socialist Falange wants a national front slate that would enable it to run candidates without revealing its weakness. Furthermore, its plan for a legislature organized along functional lines--a fascist model--is anathema to the moderate Nationalist Revolutionary Movement. In a free election, the Movement would obtain an overwhelming majority, but the military wants to restrict the political parties' campaigning to urban centers and keep the rural vote--some 60 percent of the total--under its exclusive control.

Neither of these arrangements would please Movement leaders. If unable to demonstrate their popular support within the coalition, they will be tempted to do so in opposition. In this, they may receive aid from an unexpected quarter--a dissident faction of the military. Although Banzer blamed the recent coup attempt on former cabinet minister Carlos Valverde, he took advantage of the episode to arrest or transfer a number of important middle-grade officers with liberal ideas. Included was Major Gary Prado, an exceedingly popular officer who, until his transfer, was in good standing with Banzer.



Banzer may try to gain a breather by installing an all-military cabinet soon, which he hopes will consolidate his military support and end the parties' squabble over ministerial posts. But this would be only a respite. The fear of Communism that made the coalition possible no longer exists, and few now see it in their interests to help Banzer perpetuate his personal power at their expense. Banzer is a clever political juggler, but he will continue to head an unstable government as long as he remains to the right of the mainstream of political sentiment. His current attempts to institutionalize his rule could be the catalyst that unites the younger military and the Movement--both fairly representative of the mainstream--into a force potent enough to oust him.

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Libya: The Western oil companies have been given a month to acquiesce in the 51-percent nationalization of their Libyan interests, announced 1 September. Oil Minister Mabruk did not spell out the consequences of a refusal to go along with the order, but company representatives got the impression he hoped operations would continue. Meanwhile, the companies--Exxon, Standard Oil (California), Royal Dutch Shell, Texaco, Mobil, and Gelsenberg--can go on exporting oil at pre-nationalization rates of production, but Mabruk added that 51 percent of the oil will belong to the government. [REDACTED]

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Haiti: Another fire of mysterious origin broke out in the presidential palace on the night of 31 August. This fire, the third in recent weeks and the second in two days, will further strain the unsettled political situation and raise doubts about government claims that the fires have been accidental. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

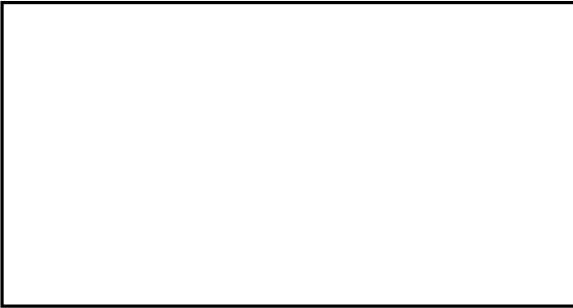
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